

Message Text

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ACTION AGRE-00

INFO OCT-01 ARA-10 EUR-12 EA-09 ISO-00 SP-02 USIA-15

AID-05 EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00

XMB-04 OPIC-06 LAB-04 SIL-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /123 W

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4202

INFO USLO PEKING

AMEMBASSY TOKYO

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UNCLAS SECTION 1 OF 3 HONG KONG 3276

FOR AGRICULTURE, FAS, FCA, MEEKER AND NOVOTNY

TOKYO, TAIPEI, CANBERRA, OTTAWA AND BUENOS AIRES

FOR AGRICULTURAL ATTACHES

FROM: AGRICULTURAL OFFICER

E.O. 11652: N/A

TAGS: EAGR, ETRD, CH, JA, TW, AS, CA, AR

SUBJECT: CHINA'S GRAIN PURCHASING: CONTRIBUTING FACTORS

REF: (A) 76 TOFAS 81; (B) 76 HK 15054

BEGIN SUMMARY: LAST AUTUMN, WITH ANOTHER RECORD GRAIN
HARVEST IN SIGHT, FEW OBSERVERS EXPECTED CHINA TO MAKE THE
HEAVY WHEAT PURCHASES (5.1 MILLION METRIC TONS) IT HAS MADE
SINCE NOVEMBER. SEVERAL DEVELOPMENTS APPEAR TO BE CONTRIBUTING
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FACTORS; FOREMOST, THE PROGRESSIVELY LESS FAVORABLE
OUTLOOK FOR CHINA'S WINTER WHEAT CROP AND THE APPARENT
SHORTFALL IN PROCUREMENT OF THE 1976 GRAIN CROP. OTHER
FACTORS BELIEVED TO HAVE INFLUENCED THE LEVEL AND TIMING OF
THE PURCHASES INCLUDE AN IMPROVED FOREIGN EXCHANGE POSITION,
LOW WHEAT PRICES, NEW LEADERSHIP COMMITMENTS TO UPGRADING
DIETS AND LIVING STANDARDS AND LOGISTICAL DISRUPTIONS OF THE

1976 EARTHQUAKES. END SUMMARY

1. BACKGROUND: IN SIX SEPARATE TRANSACTIONS WITHIN A 4-MONTH PERIOD (NOV. 11, 1976 TO MARCH 6, 1977) CHINA PURCHASED 5.1 MILLION METRIC TONS OF WHEAT FROM AUSTRALIA, CANADA AND ARGENTINA WITH AN ESTIMATED VALUE OF APPROX. US\$500 MILLION. TRADERS AND OBSERVERS ALIKE WERE SURPRISED NOT ONLY BY THE LARGE QUANTITY PURCHASED, BUT ALSO BY THE RAPIDITY OF PURCHASING -- AN AVERAGE OF ONE PURCHASE EVERY 2-3 WEEKS. A FEW MONTHS AGO, IN VIEW OF A RECORD GRAIN HARVEST IN 1976 FOLLOWING A RECORD 1975 CROP (REF (A) AND (B)), CHINA APPEARED NOT TO BE IN URGENT NEED OF A HIGHER LEVEL OF IMPORTED GRAINS THAN IN CY 1975 (I.E. 2.3 MILLION METRIC TONS). CHINA'S GRAIN SUPPLY-AND-DEMAND SITUATION APPEARED GENERALLY TO BE UNDER CONTROL.

2. WHAT WAS BEHIND THIS UNEXPECTED DEVELOPMENT? WHAT ARE THE MOST LIKELY REASONS FOR THIS SUDDEN ACCELERATION IN CHINA'S GRAIN PURCHASING?

3. THERE APPEAR TO BE A HALF-DOZEN OR MORE FACTORS CONTRIBUTING TO THE DECISION TO BUY SO MUCH WHEAT AT THE PARTICULAR TIMES WHEN IT WAS PURCHASED. THE TWO MAJOR FACTORS APPEAR -- AT LEAST AT THIS -- TO BE (A) THE UNFAVORABLE OUTLOOK FOR THE 1976-77 WINTER GRAIN CROP AND (B) THE APPARENT SHORTFALL IN STATE PROCUREMENT OF THE 1976 GRAIN HARVEST. OTHER DETERMINANTS OF QUANTITY AND TIMING OF PURCHASE PROBABLY INCLUDE (C) IMPROVED FOREIGN EXCHANGE POSITION (D) LOW WHEAT PRICES; (E) NEW LEADERSHIP COMMITTED UNCLASSIFIED

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TO UPGRADING DIETS AND LIVING STANDARDS; AND (F) LOSSES AND LONG-LASTING LOGISTICAL DISLOCATIONS RESULTING FROM SEVERAL SEVERE EARTHQUAKES, PARTICULARLY THE T'ANGSHAN EARTHQUAKE OF JULY 1976.

4. 1976-77 WINTER GRAIN CROP. PROBABLY THE LEADING CAUSE BEHIND THE DECISION WHICH LED TO CHINA'S HEAVY WHEAT PURCHASING HAS BEEN ANXIETY OVER THE PROGRESSIVELY DISAPPOINTING OUTLOOK FOR CHINA'S 1977 WINTER GRAIN HARVEST (WITH WINTER WHEAT SOME 70 PERCENT OF THE TOTAL). INFORMATION NOW AVAILABLE REVEALS CONTINUED OCCURRENCE OF TEMPERATURES CONSIDERABLY BELOW NORMAL OVER MOST OF CHINA -- ESPECIALLY SEVERE THROUGHOUT JANUARY -- AND PROGRESSIVELY, SHARPLY REDUCED PRECIPITATION IN SEVERAL MAJOR WINTER WHEAT PROVINCES IN JANUARY AND FEBRUARY (LATEST DATA AVAILABLE). SUCH UNFAVORABLE WEATHER HAD NOT OCCURRED WHEN THE EARLIER PREDICTIONS OF CONTINUED MODEST GRAIN IMPORTS IN CY 1977 WERE MADE. AS THE WINTER PROGRESSED, HOWEVER, THE DECISION TO PURCHASE LARGER-THAN-EXPECTED QUANTITIES OF WHEAT

APPEARED INCREASINGLY LOGICAL. A GLANCE AT CONDITIONS IN CHINA'S FIVE LEADING WINTER WHEAT PROVINCES (WITH 2/3 OF SOWN AREA) WILL ILLUSTRATE THE PROBLEMS FACING CHINA'S WINTER GRAIN CROP.

5. (A) HONAN -- LEADING PROVINCE IN 1976-77 WITH 4.13 MILLION HECTARES (HA) UNDER WINTER WHEAT (17-QI PERCENT OF TOTAL). TEMPERATURES WERE GENERALLY BELOW LONG-TERM MEAN (LTM) FOLLOWING AUTUMN SOWING AND PRECIPITATION DECLINED PROGRESSIVELY, WITH SERIOUS SHORTFALLS IN JANUARY AND FEBRUARY. POOR PRECIPITATION PERFORMANCE THUS HAS MADE MORE SERIOUS THE PROBLEM OF WINTERKILL. CONCLUSION: URGENTLY NEED WATER IN MARCH AND APRIL TO OFFSET ADVERSE EFFECTS OF WINTERKILL AND EARLY DROUGHT.
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UNCLAS SECTION 2 OF 3 HONG KONG 03276

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6. (B) SHANTUNG -- SECOND WINTER WHEAT PROVINCE THIS YEAR, WITH 4.0 MILLION HA., 17-18PCT OF TOTAL. WINTER TEMPERATURES BELOW LTM BUT NOT EXCESSIVELY LOW. WINTERKILL DAMAGE MAY NOT BE AS SEVERE AS IN HONAN. PRECIPITATION DOWN SHARPLY FROM UNCLASSIFIED

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DECEMBER, ON. ONLY 0.5 MM IN FEB. (BUT LTM IS ONLY 10.2 MM, OR 0.4 IN). DESPITE PRECIPITATION SHORTFALL EARLY THIS YEAR, SHANTUNG 6-MONTH TOTAL WAS ONLY 13 MM (0.5 IN.) BELOW LTM WHILE SOIL MOISTURE CONTENT CONTINUED AT APPROX. 50 PERCENT ABOVE NORMAL THROUGHOUT MOST OF 6 MONTHS. CONCLUSION: CROP NEEDS WATER AS GROWTH RESUMES, BUT CONDITIONS APPEAR BETTER THAN IN NEIGHBORING HONAN.

7. (C) HOPEH (INCL. PEKING AND TIENTSIN) -- THIRD-LARGEST (3.3-3.5 MILLION HA., 14-15PCT). SOWN AREA DOWN BY 8-9 PERCENT (DRY FALL). EXTREMELY COLD WINTER. AMOUNT OF PRECIP. SHORT-FALL IN DEC., JAN. AND FEB (5.8 MM) IS NOT TOO SERIOUS BECAUSE LTM IS ONLY 11 MM (3 PERCENT OF ANNUAL TOTAL) THOSE 3 MONTHS. TOTAL ACCUMULATED PRECIP. SINCE PLANTING WAS 2/3 ABOVE LTM THROUGH FEB. SOIL MOISTURE CONDITIONS CONTINUED GOOD FROM OCTOBER THRU FEB. WHICH SHOULD HAVE BEEN FAVORABLE FOR OVERWINTERING WHEAT. CONCLUSION: HUPEH REALLY DOES NOT APPEAR IN BAD SHAPE AS FAR AS CAN BE DETERMINED FROM WEATHER DATA. TIMELY RAINFALL IN MARCH AND APRIL IS NEEDED TO GROW A GOOD WHEAT CROP.

8. (D) ANHWEI -- FOURTH, WITH APPROX. 1.9 MILLION HA (8PCT OF TOTAL). TEMPERATURES BELOW NORMAL ALL WINTER. MAJOR PROBLEM HOWEVER, APPEARS TO HAVE BEEN PRECIPITATION -- ONLY 2/3 OF LONG-TERM MEAN, OR LOWER, THROUGHOUT 6-MONTH PERIOD. FEB. ONLY 5.8 MM (8.3 PERCENT OF LTM). FAILURE TO RECEIVE ADEQUATE PRECIP. ANY MONTH SINCE PLANTING IS REFLECTED IN CONTINUING LOW SOIL MOISTURE CONTENT. CONCLUSION: WATER PROBLEM IN ANHWEI (AT LEAST STATISTICALLY) APPEARS MORE ACTUE THAN IN ANY OF 3 PROVINCES ABOVE -- BUT TO DATE (MARCH 22) NO OFFICIAL CONCERN HAS APPEARED IN PRESS OR RADIO REPORTS.

9. (E) SHENSI -- FIFTH. APPROX 1.6 MILLION HA (7PCT). TEMPERATURES RANGING FROM -4 DEGREE C TO - 6 DEGREE C THROUGH DECEMBER TO EARLY FEBRUARY -- CONDITIONS LEADING TO WINTERKILL ESPECIALLY UNCLASSIFIED

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BECAUSE OF INADEQUATE (OR ABSENCE OF) SNOW COVER. ACCUMULATED PRECIP. IN 6 MONTHS THROUGH FEBRUARY WAS LESS THAN 2/3 OF LTM BUT SOIL MOISTURE REMAINED 50PCT OR MORE ABOVE NORMAL THROUGHOUT PERIOD. CONCLUSION: MORE THAN USUAL WINTERKILL BUT CROP SHOULD RESUME GROWTH WELL IN MARCH WITH MODERATE QUANTITIES OF WATER MADE AVAILABLE.

10. ON FEB. 19, PEOPLE'S DAILY EDITORIAL FIRST SHOWED CHINA'S WORRY ABOUT THE ADVERSE EFFECT OF UNUSUALLY COLD WEATHER ON ITS WINTER CROPS. BETWEEN FEB. 27 AND MARCH 19, CHINESE PRESS AND RADIO REPORTS THEN EXPRESSED STRONG CONCERN OVER DROUGHT IN FIVE MAJOR WINTER GRAIN PROVINCES -- HONAN, SHANTUNG, HOPEH, SHENSI AND SHANSI -- WITH 60 PERCENT OF CHINA'S AREA UNDER WINTER WHEAT. (UNDER GOOD CONDITIONS, CHINA SHOULD BE ABLE TO PRODUCE MORE THAN 40 MILLION METRIC TONS (MT) OF WINTER WHEAT (87 PERCENT OF ALL WHEAT) AND AN ADDITIONAL 15 MILLION MT OR SO OF BARLEY, FIELD PEAS AND BROAD BEANS FOR 1977'S SUMMER GRAIN HARVEST.)

11. REMEDIAL ACTION -- WITH INCREASING VIGOR, PRC OFFICIALS ARE POINTING TO DROUGHT AND DEMANDING CORRECTIVE ACTION. PRESS AND RADIO EXHORTATIONS TO MOBILIZE LABOR TO COMBAT DROUGHT, AND A NATION-WIDE TELEPHONE CONFERENCE ON MARCH 19 HAVE LED TO MOBILIZATION OF MORE THAN 40 MILLION ANTI-DROUGHT FIGHTERS IN HONAN, SHANTUNG AND SHANSI PROVINCES ALONE. RESULT THUS FOR -- WATER BROUGHT TO 60 PERCENT OF WHEAT FIELDS IN HONAN, 55 PERCENT IN SHANTUNG, 32 PERCENT IN HOPEH, AND MORE THAN HALF IN SHANSI. MOBILIZED PEASANTS (AND PLA IN SOME AREAS) WILL ALSO CONCENTRATE ON METICULOUS "FIELD TENDING", APPLICATION OF ORGANIC FERTILIZER, MARSHALING FUEL AND POWER TO RUN IRRIGATION EQUIPMENT, AND OTHER LABOR-INTENSIVE CROP-SAVING TASKS.

12. CONCLUSION: EFFECTIVE MOBILIZATION WHERE WATER IS AVAILABLE SHOULD PERMIT AT LEAST PARTIAL COMPENSATION FOR TILLERS LOST TO WINTERKILL AND DRY CONDITIONS WHEN PLANTS UNCLASSIFIED

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RESUME GROWTH FOLLOWING WINTER DORMANCY. EFFECTIVENESS OF EMERGENCY MEASURES MAY NOT BE KNOWN UNTIL HARVEST TIME, HOWEVER. OBVIOUSLY, LEVEL AND TIMING OF PRECIPITATION IN MARCH, APRIL AND MAY WILL BE CRUCIAL. PROBLEM COULD WORSEN IF SPRING IS UNUSUALLY DRY -- A POSSIBILITY OF WHICH CHINESE SHOULD BE WELL AWARE THROUGH LONG-RANGE FORECASTING, WHICH MAY HAVE PROMPTED CHINA TO ACCELERATE ITS RECENT WHEAT PURCHASES. IN SUM -- DAMAGE TO CHINA'S 1976-77 WINTER WHEAT CROP AND OTHER WINTER GRAINS HAS TAKEN PLACE AND IS APPARENTLY

ALARMING TO OFFICIALS. HOWEVER, REMEDIAL ACTION NOW BEING
TAKEN SHOULD HELP CONSIDERABLY AND THE CONCOMITANT MOBILIZATION
OF LABOR IN THE COUNTRYSIDE SHOULD PROVE BENEFICIAL TO
CHINA'S NEW LEADERS IN ENSURING THEIR BEST POSSIBLE FIRST
HARVEST UNDER ADVERSE NATURAL CONDITIONS.
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INFO USLO PEKING
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13. PROCUREMENT OF 1976 GRAIN HARVEST: CHINA'S 1976 GRAIN
HARVEST WAS A RECORD CROP -- BY OUR ESTIMATES (REF (A)) AND
BY OFFICIAL ANNOUNCEMENT (REF (B)). ALTHOUGH THE EXTENT TO

WHICH 1976 PRODUCTION EXCEEDED THAT OF 1976 MAY STILL BE IN
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QUESTION -- WHETHER BY 2, 3 OR 4 PERCENT, THE ANSWER TO THAT
QUESTION APPEARS NOW TO BE FAR LESS IMPORTANT THAN THE FACT
THAT NO OFFICIAL ANNOUNCEMENT ON THE PROCUREMENT RESULTS
OF THE 1976 GRAIN HARVEST HAS YET BEEN MADE. BY NOW (MARCH
22) SOME CLAIM SHOULD HAVE BEEN MADE IF STATE PROCUREMENT
PLAN WERE FULFILLED (NOT TO MENTION OVERFULFILLED). TO
COMPARE -- OVERFULFILLMENT OF GRAIN TAX AND GRAIN PURCHASE
WAS REPORTED ON JAN. 22, 1976 (1975 CROP); FEB. 26, 1975
(1974 CROPS). (NOTE: NO CLAIM WAS MADE IN 1973 FOLLOWING
1972 HARVEST WHICH PRC ADMITTED TO BE A POOR ONE.)

14. IN VIEW OF UNPRECEDENTED POLITICAL AND NATURAL DISASTERS
IN CHINA DURING 1976, -- INCLUDING DEATHS OF CHOU AND MAO,
FALL OF TENG HSIAO-PING AND "GANG OF FOUR", NEW LEADERSHIP
AND TANGSHAN AND OTHER EARTHQUAKES -- CONSEQUENT SHORTFALLS
AND DISLOCATIONS IN GRAIN PROCUREMENT, STORAGE AND DISTRIBUTION
OF WHATEVER GRAIN WAS HARVESTED ARE NOT SURPRISING.
(IF THE STATE DOES NOT PHYSICALLY CONTROL THE GRAIN NEEDED
TO SUPPLY CITIES AND OTHER GRAIN-DEFICIT AREAS, THE ACTUAL
SIZE OF THE HARVEST (GIVE OR TAKE A FEW MILLION TONS) IS
NOT ALL THAT SIGNIFICANT.)

15. THE RECKONING AND ASSESSMENT OF JUST HOW MUCH 1976
GRAIN THE STATE WOULD ULTIMATELY CONTROL COULD NOT HAVE BEEN
COMPLETED UNTIL DECEMBER, AND PERHAPS LATER. BUT PROGRESS
OF PURCUREMENT (OR LACK OF IT) WOULD HAVE BECOME APPARENT
WELL BEFORE THEN AND NO DOUBT CAUSED ALARM WHEN ASSESSED.
SUCH AN ASSESSMENT, IN ADDITION TO GROWING SIGNS OF ADVERSE
WEATHER CONDITIONS FOR OVERWINTERING GRAIN, COULD WELL HAVE
TRIGGERED THE DECISION TO PURCHASE LARGE QUANTITIES OF WHEAT.

16. NEW LEADERSHI: WITH ASSUMPTION OF THE PREMIERSHIP AND
LATER, PARTY CHAIRMANSHP, IT APPEARED THAT HUA KUO-FENG
WOULD BE SHOWING MORE CONCERN THAN HIS PREDECESSORS FOR THE
DAILY LIVELIHOOD OF THE CHINESE PEOPLE. THERE ARE
CLEAR INDICATIONS, FOR EXAMPLE, THAT THE HUA LEADERSHIP
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INTENDS TO INSTITUTE SOME FORM OF WAGE ADJUSTMENT IN
1977. SPECIAL ATTENTION WAS ALSO GIVEN TO
INCREASING THE SUPPLIES OF FOOD AND OTHER CONSUMER GOODS
AVAILABLE FOR THE CHINESE NEW YEAR'S HOLIDAY. MORE SIGNI-
FICANTLY, IN HIS SPEECH AT THE SECOND TACHAI CONFERENCE

(DECEMBER 1976), CHAIRMAN HUA PROMISED THAT "PEOPLE'S LIVING STANDARDS SHOULD BE GRADUALLY IMPROVED." (PEOPLE'S DAILY, DEC. 28, 1976). INCREASED SUPPLIES THROUGH IMPORTS OF WHEAT -- THE MORE-FAVORED GRAIN IN THE NORTH -- IS VISIBLE EVIDENCE OF FULFILLING THAT COMMITMENT.

17. FOREIGN EXCHANGE POSITION: ALTHOUGH CHINA HAD SIGNIFICANT BALANCE-OF-PAYMENTS DEFICITS IN CY 1974 AND CY 1975, THE GAP HAS PROGRESSIVELY NARROWED AND IS BELIEVED TO HAVE BEEN REVERSED IN CY 1976 WITH A SURPLUS PROVIDING AT LEAST PART OF THE EXCHANGE NEEDED TO PURCHASE SO MUCH WHEAT.

18. LOW WHEAT PRICES: THE AVERAGE UNIT PRICE OF THE 5.1 MILLION TONS OF WHEAT PURCHASED BY CHINA HAS BEEN AT AN ENVIABLE LOW OF APPROX. US\$100 PER TON; IN FACT, CHINA SIMPLY COULD NOT HAVE BOUGHT AT LOWER PRICES. FOR COMPARISON, U.S. PRICES (F.O.B. GULF) DURING THE PERIOD OF CHINA'S PURCHASING RANGED FROM APPROX. US\$110-113 PER TON (12-PERCENT PROTEIN) TO US\$126-143 PER TON (14-PERCENT PROTEIN). SO, ONCE THE DECISION TO PURCHASE WAS MADE IN PEKING, THE PURCHASING (I.E. PRICE PAID) WAS HIGHLY SUCCESSFUL.

19. NOTE: CONDITIONS OF OVERWINTERING GRAINS IN THE LEADING PRODUCING PROVINCES WERE DESCRIBED ABOVE (PARAS 5 THROUGH 9) IN SOME DETAIL BECAUSE OF THE EXCEPTIONAL CURRENT CONCERN EVIDENCED BY CHINESE OFFICIALS OVER THE WINTER GRAIN CROP PROSPECTS.

20. CAUTIONARY NOTE: THE AIM OF THIS CABLE, AS SUBJECT-LINE STATES CLEARLY, IS RESTRICTED TO THE IDENTIFICATION AND ANALYSIS OF SEVERAL FACTORS WHICH PROBABLY LED TO RECENT UNCLASSIFIED

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HEAVY WHEAT PURCHASING BY THE CHINESE. THIS CABLE IS NEITHER A REASSESSMENT OF CHINA'S 1976 GRAIN HARVEST NOR EVEN A MOST PRELIMINARY ATTEMPT TO ASSESS THE OUTLOOK FOR CHINA'S WINTER GRAIN HARVEST. THE CLIMATIC DATA USED IN THE PROVINCIAL ASSESSMENTS DO NOT GO BEYOND FEBRUARY (NONE IS AVAILABLE FOR MARCH) AND THUS COULD NOT REFLECT APPARENTLY WORSENING DROUGHT CONDITIONS OVER LARGE AREAS OF CHINA AS REPORTED WIDELY IN THE PRESS DURING THE PAST TEN DAYS. (AN ASSESSMENT OF CHINA'S WINTER GRAIN CROP OUTLOOK WILL BE MADE SEPARATELY.)

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Message Attributes

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Subject: CHINA'S GRAIN PURCHASING: CONTRIBUTING FACTORS
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